

CHAPTER 2

GENERAL INSTRUCTIONS FOR THE FINANCIAL STATEMENTS0201 RESPONSIBILITY FOR PREPARING FINANCIAL STATEMENTS

020101. Responsibility for Audited Financial Statements. Primary responsibility for the content and submission of the audited financial statements rests with the head of the reporting entity for which the statements are prepared. The actual preparation of the financial statements is the joint responsibility both of the Department of Defense (DoD) accounting activity maintaining the official departmental accounting records and the DoD Component for which those official accounting records are maintained. It is important to recognize that, while the accounting organization is responsible for assembling the principal statements, much of the data needed to prepare the principal statements originates in nonfinancial systems. Entity management is responsible for ensuring that the data is provided to the accounting organization in a timely manner, that it is complete, and that there are adequate internal controls and audit trails to ensure the data is accurate. The officials responsible for the content and submission of audited financial statements are identified in Table 2-1.

Officials Responsible for Audited Financial Statements

| Reporting Entities | Responsible DoD Official |
|---|--|
| Department of Defense (DoD) | Chief Financial Officer, DoD |
| Department of the Army | The Secretary of the Army |
| Department of the Navy | The Secretary of the Navy |
| Department of the Air Force | The Secretary of the Air Force |
| Army Working Capital Fund (WCF) | The Secretary of the Army |
| Navy Working Capital Fund | The Secretary of the Navy |
| Air Force Working Capital Fund | The Secretary of the Air Force |
| Defense Logistics Agency (DLA) WCF | Director, DLA |
| Defense Finance and Accounting Service (DFAS) WCF | Director, DFAS |
| DoD Military Retirement Trust Fund | Under Secretary of Defense (Personnel & Readiness) |
| U.S. Army Corps of Engineers | The Secretary of the Army |

Table 2-1

020102. Responsibility for Preparation of the Financial Statements. The primary responsibility for the financial statements rests with the reporting entity management. However, responsibility for preparation of individual sections of the statements is shared with the accounting organization responsible for maintaining the financial records of the reporting entity. Table 2-2 identifies the split of responsibilities between entity management and the supporting accounting organization.

Official Responsible for Sections of the Audited Financial Statements

| Responsibility for Preparation and Submission of Audited Financial Statements | CFO DOD | DFAS/ Accounting Activity | Reporting Entity Management |
|--|---------|---------------------------|-----------------------------|
| Overview of the Reporting Entity | | | ★ |
| Balance Sheet | | ★ | |
| Statement of Net Costs | | ★ | |
| Statement of Changes in Net Position | | ★ | |
| Statement of Budgetary Resources | | ★ | |
| Statement of Financing | | ★ | |
| Statement of Custodial Activity | | ★ | |
| Note 1 to the Principal Statements | | ★ | |
| Remaining Notes to the Principal Statements | | | ★ |
| Supplementary Stewardship Statements | | | ★ |
| Consolidating Statements | | ★ | |
| Supplemental Financial and Management Information | | | ★ |
| Supplemental Schedules | | | ★ |
| Submission of Unaudited Financial Statements to Chief Financial Officer, DoD | | | ★ |
| Submission of Unaudited Financial Statements to Inspector General, DoD for Audit | ★ | | |
| Submission of Audited Financial Statements to Office of Management and Budget | ★ | | |

Table 2-2

020103. Responsibility For Other Defense Organization Sub-Entities. In order for the Department to prepare the DoD Agency-wide audited financial statements, supporting financial statements must be prepared for the remaining DoD organizations that are not required to submit stand-alone audited financial statements. Required supporting statements shall be prepared for the subentities identified in Table 2-3 by accounting activities and submitted to the responsible Office of the Secretary of Defense (OSD) Principal Staff Assistant (PSA) designated in Table 2-3. Designated PSAs shall be responsible for providing all necessary data that originates in nonfinancial statements, reviewing combining statements and providing feedback to the Defense Finance and Accounting Service (DFAS) for consolidation with other PSA combining statements.

Office of the Secretary of Defense Principal Staff Assistants
And Associated Other Defense Organizations Sub-Entities

| RESPONSIBLE OSD PRINCIPAL STAFF ASSISTANT (PSA) | OTHER DEFENSE ORGANIZATIONS SUB-ENTITIES |
|--|---|
| Under Secretary of Defense (Acquisition and Technology) | Defense Advanced Research Projects Agency (DARPA) |
| | Ballistic Missile Defense Organization (BMDO) |
| | Defense Logistics Agency (DLA) |
| | Defense Special Weapons Agency (DSWA) |
| | Federal Energy Management Program (FEMP) |
| | Joint Logistics Systems Command (JLSC) |
| | Office of Economic Adjustment (OEA) |
| | On-Site Inspection Agency (OSIA) |
| | William Langer Jewel Bearing Plant Revolving Fund |
| Under Secretary of Defense (Personnel and Readiness) | Defense Commissary Agency (DeCA) |
| | Defense Health Program |
| | Defense Medical Program Activity (DMPA) |
| | DoD Education Activity |
| | DoD Education Benefits Fund |
| | Foreign National Employees Separation Pay Account |
| | Tricare Support Office |
| | Defense Acquisition University (DAU) |
| | Voluntary Separation Incentive Trust Fund |
| Under Secretary of Defense (Comptroller) | Defense Contract Audit Agency (DCAA) |
| | Unallocated |
| | Undistributed |
| Under Secretary of Defense (Policy) | National Security Education Trust Fund |
| | Defense Technology Security Administration (DTSA) |
| | U.S. Special Operations Command (USSOCOM) |
| | Defense Prisoner of War/Missing Persons Office |

Table 2-3

| RESPONSIBLE OSD PRINCIPAL STAFF ASSISTANT (PSA) | OTHER DEFENSE ORGANIZATIONS SUB-ENTITIES |
|--|---|
| Assistant Secretary of Defense (C3I) | Business Process Reengineering Fund |
| | Defense Information Systems Agency (DISA) |
| | Defense Intelligence Agency (DIA) |
| | Defense Investigative Service (DIS) |
| | National Imagery and Mapping Agency (NIMA) |
| Director, National Security Agency | National Security Agency (NSA) |
| Inspector General, DoD | Office of the Inspector General (OIG) |
| Director, Joint Staff | Joint Chiefs of Staff (JCS) |
| Director, Washington Headquarters Services | Court Appeals Armed Forces (CAAF) |
| | Defense Legal Services Agency (DLSA) |
| | American Forces Information Service (AFIS) |
| | Office of the Secretary of Defense (OSD) |
| | Pentagon Reservation Maintenance Revolving Fund |
| | Washington Headquarters Services (WHS) |
| | Building Maintenance Fund, Defense |
| | Other "97" Funds Provided to WHS by OSD |
| | All Other (Prior Year Residual) "97" Funds |
| Assistant Secretary of the Army (Financial Management and Comptroller) | Emergency Response Fund, Defense |
| | Homeowners Assistance Fund, Defense |
| | Other "97" Funds Provided to the Army by OSD |
| Assistant Secretary of the Navy (Financial Management and Comptroller) | Other "97" Funds Provided to the Navy by OSD |
| Assistant Secretary of the Air Force (Financial Management and Comptroller) | Other "97" Funds Provided to the Air Force by OSD |

Table 2-3 (Cont.)

020104. Reporting of Foreign Military Sales Activity in the DoD Financial Statements. The Defense Security Assistance Agency--that will become the Defense Security Cooperation Agency on October 1, 1998--administers the Foreign Military Sales (FMS) programs. The Office of Management and Budget (OMB), in coordination with the General Accounting Office, has approved the following provisions for inclusion of specific information on the financial activity of the FMS programs with the DoD financial statements.

A. Revenue and expense amounts for FMS procurements by contract will not be reported in the DoD Agency-wide Statement of Net Costs but will be disclosed in a footnote. Management's estimate of the amount of revenue and expense resulting from FMS procurements by contract will be included in Note 16 F. of the DoD Agency-wide consolidated financial statements.

B. A Statement of Custodial Activity will be prepared for cash receipts and disbursements of the FMS Trust Fund and included in the DoD Agency-wide consolidated financial statements.

C. Revenue and expense amounts pertaining to FMS goods or services provided from the stocks of the DoD Components on a reimbursable basis will continue to be reported in the financial statements of the applicable DoD Component and in the DoD Agency-wide consolidated statements.

D. Revenue and expense amounts pertaining to the FMS administrative expenses will be included in the DoD Agency-wide consolidated financial statements as a portion of "Other Defense Organizations, General funds."

E. Principal Statements and notes for allocations and authorities received from the Executive Office of the President (i.e., appropriated funds (11X1081, 11X1082, and 11X1089)) and revolving funds (11-4116, 11-4121, and 11-4122) will be prepared and included in the "Other Accompanying Information" section of the DoD Agency-wide consolidated financial statements.

0202 REPORTING SCHEDULE

020201. Audited Financial Statements. The OMB requires agencies to submit audited financial statements by March 1st following the end of the fiscal year for each of the reporting entities identified in the current OMB Bulletin titled "Audits of Agency Financial Statements." The DoD reporting entities that must meet this requirement are those identified in paragraph 010601, above.

020202. Major Statements Preparation Due Dates. The development and publication of the audited financial statements requires the coordinated actions by entity management, the supporting accounting organization, and the audit community. Table 2-4 provides a list of the major milestones in the development of the audited financial statements. The schedule contained in Table 2-4 applies to all reporting entities identified in paragraph 010601 and

to all Other Defense Organizations subentities identified in Table 2-3. The dates identified in Table 2-4 represent the month and day immediately following the end of the fiscal year for which the financial statements are being prepared. If an identified date falls on a Saturday, Sunday, or holiday, then the due date becomes the last workday preceding the weekend or holiday.

Major Statements Preparation Due Dates

| Due Date | Required Action | Responsible Office |
|-------------|---|--------------------|
| October 30 | Provide Auditors Preliminary Year-End Balances | DFAS |
| November 16 | Provide Data from Feeder Systems to DFAS | DoD Components |
| December 3 | Provide Version 1 Statements and Notes to DoD Components | DFAS |
| December 8 | Provide Version 1 Comments to DFAS | DoD Components |
| December 11 | Provide Version 2 Statements and Notes to DoD Components, Advance Copy to OIG | DFAS |
| December 17 | Provide Consolidated Statements to CFO | DoD Components |
| December 21 | Provide DoD Agency-wide Statements and Notes to CFO | DFAS |
| December 24 | Provide Unaudited DoD Financial Statements and Notes to the OIG | CFO |
| January 15 | Provide Final Audit Adjustments to DoD Components and DFAS | Auditors |
| January 24 | Provide Version 3 Statements and Notes to DoD Components | DFAS |
| February 1 | Provide Management and Legal Representation Letters to the OIG and the Military Department Audit Agencies | DoD Components |
| February 2 | Provide Final Financial Statements to CFO and OIG | DoD Components |
| Feb 5 | Provide Final DoD Agency-wide Financial Statements to the OIG | CFO |
| Feb 12 | Provide Audit Opinion Letters to CFO and DoD Components | OIG |
| Feb 23 | Provide Printed Copies of Financial Statements to CFO | DoD Components |
| Mar 1 | Provide Audited Financial Statements to OMB | CFO |

Table 2-4

0203 MANAGEMENT REPRESENTATION LETTERS

Auditors request that management prepare and submit a management letter, for each reporting entity, prior to the conclusion of an audit. In the letter, management provides a number of assertions that the financial statements do, or do not, present fairly in accordance with generally accepted accounting principles and OMB form and content guidance the financial status of the reporting entity. Management representation letters are intended to (a) confirm in writing the representations made to the auditors regarding the financial statements, legal matters, and other significant issues and (b) ensure that there are no misunderstandings regarding the responsibilities for the financial statements and representations made regarding them. Management representation letters are due to the office performing the entities audit by due date specified in Table 2-4, above.

020301. Signature levels for management representation letters are indicated below:

A. A management representation letter in support of a financial statement for a Military Department's general funds or working capital fund must be signed by the Secretary or Under Secretary of the Military Department concerned.

B. A management representation letter in support of a financial statement for a Defense Agency working capital fund must be signed by the Director or Deputy Director of the Defense Agency concerned.

C. A management representation letter in support of a Chief Financial Officer financial statement for a trust or revolving fund managed by the Office of the Secretary of Defense or Defense Agency must be signed by the fund manager of the trust or revolving fund concerned.

D. A management representation letter for the "Total Department of Defense" financial statement must be signed by the Under Secretary of Defense (Comptroller).

E. The Director or Principal Deputy Director of the Defense Finance and Accounting Service (DFAS), or the Director of the applicable DFAS Center, will provide a certification to the respective Military Department Secretary, Defense Agency Director or trust fund manager as supporting documentation for their management representation letter. However, the Director, DFAS will not sign, or cosign, management representation letters (except for the management representation letter for the DFAS Working Capital Fund (WCF) financial statements). When accounting support is provided by an office other than the DFAS, the accounting office must provide the same type of certification. A sample of the certification to be provided by the DFAS or other accounting office is provided in Volume 6, Chapter 2, paragraph 020210.

020302 Requests for management representation letters below the above levels should be referred to the Office of the Deputy Chief Financial Officer (ODCFO) for resolution.

0204 LEGAL REPRESENTATION LETTERS

Legal representation letters are the auditors' primary means of corroboration of the information furnished by management concerning litigation, claims, and assessments. Legal representation letters are required for each of the reporting entities identified in paragraph 010601 of this volume. Legal representation letters are intended to inform the auditors clearly of all lawsuits, as well as asserted and unasserted claims which may be significant in relation to the financial statements, along with an assessment of the probable outcomes--including any potential losses. It is the responsibility of the senior management official of each reporting entity to request the legal representation letter. Legal representation letters must be provided to the office performing the audit--the DoD Inspector General or the Military Service audit agency--of the entity's financial statements by the dates specified in the schedule provided in Table 2-4 of this volume. Requests for legal representation letters will be forwarded to the General Counsel (GC) of the applicable Military Service. Requests for legal representation letters for Defense accounts will be forwarded to the GC, DoD. Requests for legal representation letters below the Service or fund level should be referred to the ODCFO, for resolution.

0205 GENERAL PREPARATION INSTRUCTIONS

020501. The principal statements and notes embody the financial accounting concepts and recognition and measurement requirements contained in the Statements of Federal Financial Accounting Concepts (SFFACs) and Statements of Federal Financial Accounting Standards (SFFASs) recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved by the Secretary of the Treasury, the Director of the OMB, and the Comptroller General. The SFFACs and SFFASs have been or will be incorporated into the accounting policy and guidance contained in the "DoD Financial Management Regulation" (DoD FMR). Preparers of financial statements seeking detailed guidance on matters involving the recognition and measurement requirements for transactions and information covered by the SFFASs should refer to the DoD FMR. If sufficient guidance is not found in this regulation, preparers shall follow the hierarchy of accounting principals and standards contained in paragraph 0109, above.

020502. Round dollar amounts to the nearest whole thousand on the final principal statements and in the tables contained in the notes to the principal statements. To avoid excessive workload associated with the resolution of rounding errors, accounting activities should report amounts as dollars and cents on all versions of the principal statements and notes prior to submission of the final versions to entity management.

020503. Prior year comparative data is to be displayed on the principal statements. The comparative data is to be placed to the right of the current year figures and clearly labeled. However, since FY 1998 is the first year that most of the principal statements, no comparative data is required on the FY 1998 financial statements. Effective with the FY 1999 statements, comparative data will be required for each of the principal statements.

020504. Statement line items, footnotes, and lines or columns in footnotes that do not apply to the reporting entity may be excluded from the final version of the statements and notes. However, in order to ensure consistent and accurate aggregation of amounts from suborganizations, such lines may not be excluded prior to the submission of the final version to entity management. Due to the short timeframes available for statement consolidation at the agency level, preparers are not authorized to combine lines for which the referenced account balance are immaterial.

020505. Do not designate in footnotes as “other” any discrete balances of a material amount. Material balances should be separately reported and designated by name.

020506. The footnote numbering sequence contained in Chapter 10 of this Volume must be maintained in order to ensure consistent and accurate aggregation to the DoD agency level. If additional footnotes are necessary to provide required disclosures number them sequentially beginning with the number following the last footnote identified in Chapter 10 of this Volume.

020507. Ensure that schedules presented in the footnotes in support of amounts presented on financial statements have total figures that agree with the amounts presented in the body of the financial statements.

020508. The principal statements provided for the DoD reporting entities must be prepared as consolidated statements net of intra-entity transactions.

020509. Balance sheet consolidating statements are required to be included in the Other Accompanying Information section of the financial statements for each of the DoD reporting entities identified in paragraph 010601 of this volume. In addition, a consolidating balance sheet will be prepared for the total DoD-wide consolidated financial statements. The Federal Accounting Standards Advisory Board (FASAB) defines a consolidating statement as a financial statement in which the transactions and balances of component entities are presented in separate columns along with a column for intra-entity transactions and balances. The resulting total column reflects the entity totals net of intra-entity transactions and balances.

020510. Entity managers have the option to present consolidating statements for other principal statements where numerous subentities are presented within the financial statements. The consolidating statements should be placed in the Other Accompanying Information section of the financial statements.

020511. Balance sheet consolidating statements are required for the WCF reporting entities identified in paragraph 010601. However, individual sets of principal statements and notes for each WCF subentity/suborganization are not to be included in the formal financial statements for the working entity.

020512. The financial statements of the reporting entities identified in paragraph 0106 should be organized as displayed in Appendix B of this Volume.

020513. Entity managers are responsible for the preparation and printing of the final complete version of their financial statements. Fifteen bound copies of the printed financial statements, including all of the items identified in Appendix B, must be submitted to the Office of the Under Secretary of Defense (Comptroller), Office of Deputy Chief Financial Officer, Accounting Policy Directorate, 1100 Defense Pentagon, Room 3A882, Washington, DC 20301-1100, no later than February 23.

020514. The Department's financial statements will be distributed electronically via the Internet. Entity managers have the option to post their financial statements on their web site or have their financial statements posted on the Under Secretary of Defense (Comptroller) (USD(C)) web site. In either case the financial statements must be available via the Internet by March 2.

A. Entity managers who choose to have their financial statements posted on the USD(C) web site, must provide an electronic version of the financial statements to the ODCFO along with the printed copies by February 23. The electronic version must be provided in the portable document format.

B. Entity managers who choose to post their financial statements on an entity web site, must provide the Internet address to the ODCFO along with the printed copies of the financial statements by February 23.

0206 DEPARTMENTAL ADJUSTMENTS RESULTING FROM FINANCIAL STATEMENTS AUDITING

020601. Material errors in financial statements discovered after installation-level records are closed but before departmental-level records are closed shall be corrected upon approval by the program manager. Material errors result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the installation-level financial statements were prepared. Corrections to departmental-level financial statements will be made only after their application to specific installations, appropriations and/or accounts, and general ledger accounts has been documented. Each DoD Component, in coordination with the DFAS, will establish and document procedures to ensure that corrections made at the departmental level (after installation-level accounting records have been closed for the reporting year) are transmitted to subordinate installations for input into current year accounting records. Procedures also will be established to monitor and ensure that each installation's respective corrections and prior year adjustments are input into installation accounting systems and that such information is transmitted to the departmental level for control and reporting purposes.

020602. Departmental-level adjustments must be reversed in their entirety during the current fiscal year (i.e., as early as feasible in the fiscal year following the fiscal year for which the financial statements were prepared). Program managers must ensure that each adjustment is

tracked from its entry into the system through its reversal as of the following year and that supporting documentation, including the agreement with the auditors for its inclusion, is available.

020603. Sample Entries.

A. During January 1999, audit of the FY 1998 financial statements reveals that a revenue item for \$100,000 for services provided was not posted to installation records. The installation records supporting the FY 1998 records have been closed but the departmental records supporting the FY 1998 financial statements are still open. Review of the transaction also reveals that an accounts receivable entry and related budgetary accounts were not posted. The installation accounting officer should determine the reasons for not posting the transaction and for not collecting the receivable. Documentation supporting the need for the adjustment is available. The posting of revenue, when closed, would have had an effect on equity; therefore, the following actions should be taken.

1. Departmental-level Action.

a. Increase both accounts receivable and revenue and related budgetary account balances in the FY 1998 financial statements by \$100,000.

| | | | |
|---|---|---------|---------|
| Dr 1313 | Accounts Receivable-Government-Current | 100,000 | |
| Cr 5200 | Revenue from Services Provided | | 100,000 |
| Dr 4251 | Reimbursements and Other Income Earned - Receivable | 100,000 | |
| Cr 4220 | Unfilled Customer Orders | | 100,000 |
| (Additional Information Required: No advance) | | | |

b. Closing Entries for FY 1998.

| | | | |
|---------|----------------------------------|---------|---------|
| Dr 5200 | Revenue from Services Provided | 100,000 | |
| Cr 3310 | Cumulative Results of Operations | | 100,000 |

c. Reversing Entries in FY 1999.

| | | | |
|---|---|---------|---------|
| Dr 7400 | Prior Period Adjustments | 100,000 | |
| Cr 1313 | Accounts Receivable-Government-Current | | 100,000 |
| Dr 4220 | Unfilled Customer Orders | 100,000 | |
| (Additional Information Required: No advance) | | | |
| Cr 4251 | Reimbursements and Other Income Earned - Receivable | | 100,000 |

2. Installation-level Action. The installation should be requested to make the following journal entries to its FY 1999 accounting records.

| | | | |
|---|---|---------|---------|
| Dr 1313 | Accounts Receivable-Government-Current | 100,000 | |
| Cr 7400 | Prior Period Adjustments | | 100,000 |
| Dr 4251 | Reimbursements and Other Income Earned - Receivable | 100,000 | |
| Cr 4220 | Unfilled Customer Orders | | 100,000 |
| (Additional Information Required: No advance) | | | |

B. During the same audit of the FY 1998 financial statements, a revenue item for \$200,000 for services provided was discovered to not have been posted to the FY 1997 (prior year) installation accounting records. The Departmental records supporting the FY 1998 financial statements have not been closed; however, the records for FY 1997 have been closed for over a year. Review of the transaction also revealed that an accounts receivable entry and related budgetary accounts were not posted. The installation accounting officer should determine the reasons for not posting the transaction and for not collecting the receivable. Documentation supporting the need for the adjustment is available. The posting of revenue, when closed, would have had an effect on equity; therefore, the following actions should be taken:

1. Departmental-level Action.

a. Increase departmental accounts receivable and Prior Period Adjustments and related budgetary accounts by \$200,000. Disclose in the footnotes to the financial statements the adjustment for \$200,000 and its correction during FY 1998.

| | | | |
|---|---|---------|---------|
| Dr 1312 | Accounts Receivable-Government-Noncurrent | 200,000 | |
| Cr 7400 | Prior Period Adjustments | | 200,000 |
| Dr 4251 | Reimbursements and Other Income Earned - Receivable | 200,000 | |
| Cr 4220 | Unfilled Customer Orders | | 200,000 |
| (Additional Information Required: No advance) | | | |

b. Closing Entries for FY 1998.

| | | | |
|---------|----------------------------------|---------|---------|
| Dr 7400 | Prior Period Adjustments | 200,000 | |
| Cr 3310 | Cumulative Results of Operations | | 200,000 |

c. Reversing Entries in FY 1999.

| | | | |
|---|---|---------|---------|
| Dr 7400 | Prior Period Adjustments | 200,000 | |
| Cr 1313 | Accounts Receivable-Government-Current | | 200,000 |
| Dr 4220 | Unfilled Customer Orders | 200,000 | |
| (Additional Information Required: No advance) | | | |
| Cr 4251 | Reimbursements and Other Income Earned - Receivable | | 200,000 |

2. Installation-level Action. The installation should be requested to make the following journal entries to its FY 1999 accounting records.

| | | | | |
|---|------|---|---------|---------|
| Dr | 1312 | Accounts Receivable-Government-Noncurrent | 200,000 | |
| Cr | 7400 | Prior Period Adjustments | | 200,000 |
| Dr | 4251 | Reimbursements and Other Income Earned - Receivable | 200,000 | |
| Cr | 4220 | Unfilled Customer Orders | | 200,000 |
| (Additional Information Required: No advance) | | | | |

C. During January 1999, audit of the FY 1998 financial statements revealed that an expense for \$50,000, related to a reimbursable program, was not posted to installation records. The departmental records supporting the FY 1998 financial statements have not been closed. Review of the transaction also revealed that an accounts payable and related budgetary accounts were not posted and that payment was never made. The installation accounting officer should determine the reason for not posting the transaction and for not making a payment to liquidate the payable. Documentation supporting the need for the adjustment is available. The posting of expense, when closed, would have had an effect on equity; therefore, the following actions should be taken:

1. Departmental-level Action.

a. Increase both accounts payable and expense as well as the related budgetary account balances in the financial statements by \$50,000.

| | | | | |
|----|------|-------------------------------------|--------|--------|
| Dr | 6100 | Expense | 50,000 | |
| Cr | 2111 | Accounts Payable-Government-Current | | 50,000 |
| Dr | 4801 | Undelivered Orders - Unpaid | 50,000 | |
| Cr | 4901 | Expended Authority - Unpaid | | 50,000 |

b. Closing Entries for FY 1998.

| | | | | |
|----|------|----------------------------------|--------|--------|
| Dr | 3310 | Cumulative Results of Operations | 50,000 | |
| Cr | 6100 | Expense | | 50,000 |

c. Reversing Entries in FY 1999.

| | | | | |
|----|------|-------------------------------------|--------|--------|
| Dr | 2111 | Accounts Payable-Government-Current | 50,000 | |
| Cr | 7400 | Prior Period Adjustments | | 50,000 |
| Dr | 4901 | Expended Authority - Unpaid | 50,000 | |
| Cr | 4801 | Undelivered Orders - Unpaid | | 50,000 |

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

| | | | |
|---------|-------------------------------------|--------|--------|
| Dr 7400 | Prior Period Adjustments | 50,000 | |
| Cr 2111 | Accounts Payable-Government-Current | | 50,000 |
| Dr 4801 | Undelivered Orders - Unpaid | 50,000 | |
| Cr 4901 | Expended Authority - Unpaid | | 50,000 |

D. During the same audit of FY 1998 installation accounts, an expense for \$210,000, related to a reimbursable program, was mistakenly posted as \$120,000 to installation FY 1998 records. The \$90,000 error was not detected. The departmental records supporting the FY 1998 financial statements had not been closed. Review of the transaction also revealed that the \$90,000 difference has caused the payment to remain unmatched and the accounts payable and related budgetary accounts unliquidated. The installation accounting officer should determine the reasons for not correcting the initial posting and for not liquidating the payable. Documentation supporting the need for the adjustment was available. The posting of expense, when closed, would have had an effect on equity; therefore, the following actions should be taken:

1. Departmental-level Action.

a. Increase both accounts payable and expense and related budgetary account balances in the FY 1998 financial statements by \$90,000.

| | | | |
|---------|-------------------------------------|--------|--------|
| Dr 6100 | Expense | 90,000 | |
| Cr 2111 | Accounts Payable-Government-Current | | 90,000 |
| Dr 4801 | Undelivered Orders - Unpaid | 90,000 | |
| Cr 4901 | Expended Authority - Unpaid | | 90,000 |

b. Closing Entries for FY 1998.

| | | | |
|---------|----------------------------------|--------|--------|
| Dr 3310 | Cumulative Results of Operations | 90,000 | |
| Cr 6100 | Expense | | 90,000 |

c. Reversing Entries in FY 1999.

| | | | |
|---------|-------------------------------------|--------|--------|
| Dr 2111 | Accounts Payable-Government-Current | 90,000 | |
| Cr 7400 | Prior Period Adjustments | | 90,000 |
| Dr 4901 | Expended Authority - Unpaid | 90,000 | |
| Cr 4801 | Undelivered Orders - Unpaid | | 90,000 |

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

| | | | | |
|----|------|-----------------------------|-------------------------------------|--------|
| Dr | 7400 | Prior Period Adjustments | 90,000 | |
| | Cr | 2111 | Accounts Payable-Government-Current | 90,000 |
| Dr | 4801 | Undelivered Orders - Unpaid | 90,000 | |
| | Cr | 4901 | Expended Authority - Unpaid | 90,000 |

E. During January 1999, audit of the FY 1998 financial statements revealed that general equipment for \$160,000 was not posted to installation records. The departmental records supporting the FY 1998 financial statements have not been closed. Further review of the transaction revealed that the item of equipment was free issue from a procurement appropriation as of September 29 of the reporting fiscal year. Documentation supporting the need for the adjustment is available. The installation accounting officer should be reviewing accounting procedures to determine why the property was not posted to official accounting reports. The posting of financing sources, when closed, would have had an effect on equity; therefore, the following actions should be taken:

1. Departmental-level Action.

a. Increase the asset account for military equipment and financing accounts for \$160,000 in the FY 1998 financial statements. There are no budgetary entries required.

| | | | | |
|----|------|------------------|--|---------|
| Dr | 1762 | Equipment in Use | 160,000 | |
| | Cr | 5720 | Financing Sources Transferred In Without Reimbursement | 160,000 |

b. Closing Entries for FY 1998.

| | | | | |
|----|------|--|----------------------------------|---------|
| Dr | 5720 | Financing Sources Transferred In Without Reimbursement | 160,000 | |
| | Cr | 3310 | Cumulative Results of Operations | 160,000 |

c. Reversing Entries in FY 1999.

| | | | | |
|----|------|--------------------------|------------------|---------|
| Dr | 7400 | Prior Period Adjustments | 160,000 | |
| | Cr | 1762 | Equipment in Use | 160,000 |

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

| | | | | |
|----|------|------------------|--------------------------|---------|
| Dr | 1762 | Equipment in Use | 160,000 | |
| | Cr | 7400 | Prior Period Adjustments | 160,000 |

F. During January 1999, audit of the FY 1998 financial statements revealed that numerous equipment items totaling \$120,000 were capitalized on installation accounting records. No depreciation had been recorded against the equipment. Departmental records

supporting the FY 1998 financial statements have not been closed. Further review of the transactions revealed that the items were purchased from operation and maintenance funds and were not expensed. Budgetary entries to obligate and disburse funds related to these items were correctly posted. Each item acquisition cost was less than the \$100,000 capitalization criteria. Documentation supporting the need for the adjustment is available. The installation accounting officer should be reviewing accounting procedures to determine why the property was not expensed in the official accounting records. (Note: That property records must be maintained in some specific cases.) The posting of expense, versus capital, when closed, would have had an effect on equity (Unexpended Appropriations); therefore, the following actions are required. In this case, the proper posting would have effected expense; therefore, the installation needs to record a prior period adjustment as follows:

1. Departmental-level Action.

a. Decrease equipment and equity accounts for \$120,000 in the FY 1996 financial statements. There are no budgetary entries required.

| | | | |
|---------|-----------|---------|---------|
| Dr 6100 | Expense | 120,000 | |
| Cr 1750 | Equipment | | 120,000 |

b. Closing Entries for FY 1998.

| | | | |
|---------|----------------------------------|---------|---------|
| Dr 3310 | Cumulative Results of Operations | 120,000 | |
| Cr 6100 | Expense | | 120,000 |

c. Reversing Entries in FY 1999

| | | | |
|---------|--------------------------|---------|---------|
| Dr 1750 | Equipment | 120,000 | |
| Cr 7400 | Prior Period Adjustments | | 120,000 |

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

| | | | |
|---------|--------------------------|---------|---------|
| Dr 7400 | Prior Period Adjustments | 120,000 | |
| Cr 1750 | Equipment | | 120,000 |

G. During January 1999, audit of the FY 1998 financial statements revealed that a \$150,000 error was made in consolidating the FY 1998 line item for "Property, Plant and Equipment, Net" of the balance sheet at an installation. The departmental records supporting the FY 1998 financial statements had not been closed. The installation accounting officer should determine the reason the error was made in consolidating the FY 1998 line item to preclude it happening in FY 1999. Documentation supporting the need for the correction was available.

1. Departmental-level Action. Make the correction to the "Property, Plant and Equipment, Net" line at the departmental level and ensure that an offsetting entry is made to equity at the Departmental level. Reprint the balance sheet after correction.

2. Installation-level Action. No corrections are made to the FY 1995 financial statements; however, installation-level property records must be corrected so the same mistake is not made next year.

0207 FOOTNOTE REQUIREMENTS TO FINANCIAL STATEMENTS

020701. In many cases, the underlying financial systems and operations that produce these statements were not designed to generate auditable financial statements in compliance with this form and content guidance. Consequently, diversions from generally accepted accounting principles and DoD policy exist in many of the Department's organizations. This is due largely, but not entirely, to long-standing systems problems. The continuing system problems remain a serious challenge to the Department--and realistically will require a number of years to correct. In cases where individual line items of the financial statements cannot be obtained or a substitution is made from the requirements herein, the deficiencies must be explained and the reason for noncompliance annotated. At the discretion of entity management, such explanation can be included in the "Overview of the Reporting Entity" or in the financial statements, at Note 1 "Significant Accounting Policies," or any combination thereof.